

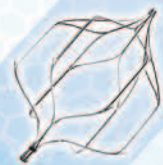


LifeTech Scientific Corporation 先健科技公司

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 01302

2015

INTERIM REPORT



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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

XIE Yuehui (*Chairman and Chief Executive Officer*)
(*Appointed as Chief Executive Officer on 2 March 2015*)
ZHAO Yiwei Michael (*former Chief Executive Officer*)
(*Resigned on 2 March 2015*)
LIU Jianxiong
(*Chief Financial Officer and Company Secretary*)
(*Appointed as non-executive Director on 2 March 2015 and re-designated as executive Director on 27 March 2015*)

NON-EXECUTIVE DIRECTORS

WU Jianhui
MARTHA Geoffrey Straub
(*Resigned on 27 August 2015*)
CLEARY Christopher Michael
(*Appointed on 27 August 2015*)
MONAGHAN Shawn Del
(*Appointed on 27 March 2015*)
JIANG Feng
LIDDICOAT John Randall
(*Resigned on 27 March 2015*)

INDEPENDENT NON-EXECUTIVE DIRECTORS

LIANG Hsien Tse Joseph
ZHOU Gengshen
ZHOU Luming

COMPANY SECRETARY

LIU Jianxiong

AUTHORIZED REPRESENTATIVES

XIE Yuehui
LIU Jianxiong

AUDIT COMMITTEE

LIANG Hsien Tse Joseph (*Chairman*)
WU Jianhui
ZHOU Gengshen

NOMINATION COMMITTEE

ZHOU Luming (*Chairman*)
XIE Yuehui
LIANG Hsien Tse Joseph

REMUNERATION COMMITTEE

ZHOU Gengshen (*Chairman*)
MARTHA Geoffrey Straub
(*Resigned on 27 August 2015*)
CLEARY Christopher Michael
(*Appointed on 27 August 2015*)
LIANG Hsien Tse Joseph

HONG KONG SHARE REGISTRAR

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East, Hong Kong

WEBSITE

www.lifetechmed.com

STOCK CODE

1302

LISTING DATE ON THE GROWTH ENTERPRISE MARKET

10 November 2011

DATE OF TRANSFER OF LISTING FROM GROWTH ENTERPRISE MARKET TO THE MAIN BOARD

6 November 2013

PRINCIPAL BANKERS

China Merchants Bank
Shenzhen Chegongmiao Branch
Block A, 1/F Tianxiang Building
Tianan Chegongmiao Industrial District Futian
Shenzhen, PRC

China Construction Bank, Shenzhen Nanxin Branch
1/F China Construction Bank Building
No. 1 Guankou Road, Nanshan District Shenzhen
PRC

HONG KONG LEGAL ADVISOR

Brandt Chan & Partners in association
with Dentons HK LLP
3201 Jardine House
1 Connaught Place Central
Hong Kong

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants
35/F One Pacific Place
88 Queensway, Hong Kong

REGISTERED OFFICE IN CAYMAN ISLANDS

PO Box 309
Ugland House
Grand Cayman, KY1-1104 Cayman Islands

PRINCIPAL PLACE OF BUSINESS AND ADDRESS OF HEADQUARTERS

Cybio Electronic Building, Langshan 2nd Street
North Area of High-tech Park, Nanshan District
Shenzhen 518057, PRC

PLACE OF BUSINESS IN HONG KONG REGISTERED UNDER PART 16 OF THE HONG KONG COMPANIES ORDINANCE

31/F, 148 Electric Road
North Point, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Maples Fund Services (Cayman) Limited
PO Box 1093, Boundary Hall
Cricket Square, Grand Cayman KY1-1102,
Cayman Islands

FINANCIAL HIGHLIGHTS

- Turnover for the six months ended 30 June 2015 was approximately RMB149.1 million, representing an increase of approximately 9.9% as compared to the turnover of approximately RMB135.7 million for the six months ended 30 June 2014.
- Operating profit for the six months ended 30 June 2015 was approximately RMB52.4 million, representing a substantial increase of approximately 106.3% as compared to approximately RMB25.4 million for the six months ended 30 June 2014. The growth was primarily attributable to the growth of sales, increase of income recognition of the government grants, and also the decrease of the administration expenses as there was a service fee of approximately RMB20.7 million recorded in the corresponding period in 2014 which was payable to Medtronic pursuant to the service agreement entered into in 2012 and the second supplemental service agreement entered into in 2014.
- Loss attributable to shareholders of the Company for the six months ended 30 June 2015 was approximately RMB202.2 million (corresponding period in 2014: approximately RMB199.2 million), primarily due to the record of fair value loss of conversion option of the First Tranche Convertible Notes (as defined in the circular of the Company dated 6 January 2013) issued on 30 January 2013 of approximately RMB237.5 million. Excluding the influence of this part, the Company would have recorded profit attributable to owners of the Company of approximately RMB35.3 million for the six months ended 30 June 2015.
- Based on the fact that fair value loss on convertible notes is a non-operating and non-cash subject in nature and the substantial increase in operating profit between the first six months ended 30 June 2014 and 2015, the Board is of the view that the Group's operating and financial positions are healthy and the Board remains positive on the prospects of the Group.
- The Board did not recommend the payment of any interim dividend for the six months ended 30 June 2015 (corresponding period in 2014: Nil).

BUSINESS OVERVIEW

LifeTech Scientific Corporation (the “Company” or “Lifetech”) and its subsidiaries (collectively the “Group”) is a developer, manufacturer and marketer of advanced minimally invasive interventional medical devices for cardiovascular and peripheral vascular diseases and disorders. We have three main product lines, including congenital and structural heart diseases business (“congenital heart diseases business”), peripheral vascular diseases business and surgical vascular repair business, providing clinically effective and commercially attractive product offerings.

Today, our products are being used in 80 countries across Asia, Africa, North America, South America and Europe, mainly through our network of distributors consisting of nearly 164 distributors worldwide.

First-half performances

Faced with the uncertain global economic environment, continuous depreciation of worldwide exchange rate against United States Dollar (“US Dollar”) and on-going market weakness, coupled with revolution of medical devices bidding process in the People’s Republic of China (“China” or “PRC”), our business is full of challenge during the six months ended 30 June 2015. China is still our largest market, and sales generated from Chinese market accounted for approximately 76.2% of our total revenue for the six months ended 30 June 2015 (corresponding period in 2014: approximately 73.7%). Our domestic sales experienced a steady growth of approximately 13.6% for the six months ended 30 June 2015 as compared to the corresponding period in 2014, indicating our stronger brand and greater market share in China. Our international market had approximately a 0.4% decrease in sales revenue for the six months ended 30 June 2015 as compared to the corresponding period in 2014, which was mainly due to the depreciation of worldwide currency against US Dollar and uncertain global economic environment. During the six months ended 30 June 2015, we have adopted a series of practicable and effective actions in order to maintain our business growth and market share.

Pacemaker project

The implantable pacemaker products, as set out in several agreements entered into with Medtronic, Inc. or its affiliates (“Medtronic”) on 25 July 2014 (the “New Transaction Agreements”), will be manufactured and commercialized under the Company’s brand with help and guidance from Medtronic. The project has been implementing according to the plan so far. For the purpose of manufacturing pacemaker products in the future, Lifetech will set up a dedicated clean room. The clean room has been broken ground in May 2015, and the construction has been completed at the end of August 2015. First batch of pacemaker samples for the purpose of registration are expected to be ready in early 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

Marketing activity

During the six months ended 30 June 2015, we continuously strengthen the distribution system by choosing quality distributors, and have achieved the realization of a fantastic product distribution line, of which the Company has made solid steps toward reaching out to new consumers and markets.

We participated in a number of domestic and overseas exhibitions to promote Lifetech's products, especially for our new product of LАmbre™ LAA occluder. Hospitals and patients were benefited from the high quality and affordable price of our products. We have made product training, promotion plan and collected feedbacks from doctors which bring us more and more recognition from end experts. For further improving market recognition of Fustar, a medical journal of Lifetech "Fustar case sharing special edition" was made which showed excellent usage cases of Fustar such as visceral artery, carotid artery, lower extremity artery, Vena Cava Filter retrieval, electrophysiology and Endovascular Aortic Repair, till now this journal had received high praise. Henceforth, beside typical indications, Fustar can challenge more complex cases and it can be devoted to become one preferred medical device product for peripheral disease treatment.

In the early half of 2015, two Lifetech Knowledge Exchange Program ("LKEP") activities were organized in respect of Structural and Congenital Heart disease in Qingdao Children's Heart Center and Guangzhou Women and Children' Medical Center. There were eight doctors coming from Russia, Indonesia and Malaysia who visited Qingdao Children's Heart Center, having the discussion with doctors both in hybrid and intervention treatments. The two LKEP will help the doctors to get trained and to start the new procedure in their local hospitals, and will benefit more patients as well. In the future, Lifetech will keep working on innovative product design and making its best effort to medical device and medical treatment development.

In April and June 2015, we had held live case transmissions to two major international events in Vietnam and Germany. These actions not only reflected our acceptance at the international level but also strengthened recognition of our capabilities.

In India, we had held almost 23 workshops and conducted 9 Continued Medical Education ("CME") programmes during the first six months of this year across several regions of India. We had invited specialist from major institutions to conduct these workshops at relatively new and upcoming places, so that these workshops acted as a learning platform for the in-house doctors. We had participated in the annual conference of Indian Society of Vascular and Interventional Radiologists ("ISVIR"), which was held at Hyderabad, India during the third week of February 2015. We had presented our Ankura stent graft products which were well recognized by the participants.

OUR PRODUCTS

Our new product of LAmbré™ LAA occluder had completed the clinical implantation both in Europe and China as at 30 June 2015. And we will continue to complete the follow-up visit for CE approval in Europe and CFDA approval in China.

Clinical trial of Peripheral Bare Stent System was developed in the PRC and Hong Kong, some research center received the ethic committee approval and start to do the clinical implantation in the PRC and Hong Kong during the six months ended 30 June 2015.

As at 30 June 2015, clinical trial of Ankura II Aortic stent graft system was finished.

Lliac Aortic stent graft system had successfully completed the first clinical implantation during the six months ended 30 June 2015.

PATENTS AND BRANDING

During the six months ended 30 June 2015, we have filed 23 patents applications, including 13 applications in the PRC and 6 applications overseas, such as the European Union, America, India, and 4 applications in Patent Cooperation Treaty (“PCT”). 17 patents have been approved during the period.

STRATEGIC COOPERATION WITH MEDTRONIC

We are pleased to inform that the New Transaction Agreements have been approved by the shareholders of the Company on 7 May 2015. Under the New Transaction Agreements, Medtronic and its affiliates will provide the Company or its affiliates with (i) licenses to know-how and other intellectual property; (ii) certain consulting services; (iii) certain equipment and components; (iv) manufacturing capabilities and (v) marketing, promotion and distribution in connection with certain implantable cardiac rhythm management products to be developed and manufactured by the Company at the Company’s facility in Shenzhen, the PRC. For further details, please refer to the announcement of the Company dated 28 July 2014, the supplemental announcement of the Company dated 7 August 2014 and 17 April 2015, the circular of the Company dated 20 April 2015 and the poll results announcement of the Company dated 7 May 2015.

The board of directors of the Company (the “Board”) believes that such expansion of the Company’s strategic alliance with Medtronic will enable the Company to achieve synergies in collaboration with Medtronic and to become a world-class leading medical device player. Medtronic, being a globally recognized and well-regarded market player in the medical device industry, will bring in technical, operational and management expertise with a view to improving the internal system, business operation, research and development, production and sales operation of the Company; while the Company, being an emerging player in the medical devices industry in the PRC, will benefit from the cutting edge industry expertise of Medtronic for product development and brand-building. As such, the entering into of the New Transactions Agreements is in line with the long-established goal of the Group to commercialise the Pacing Products under its own name and thus enter into the PRC pacemaker market to seize market share from the local manufacturers.

Furthermore, Medtronic, our exclusive distributor for CeraFlex occluders in selected countries in Europe and the Middle East, had expanded massive promotion about CeraFlex product gradually in 21 countries across Europe, our occluder products could be sold in more than 70 countries globally.

FINANCIAL REVIEW

OVERVIEW

Facing a challenging and tough environment with fierce competitions in the medical device market, the revenue of the Company has maintained a modest growth for the six months ended 30 June 2015. With the potent strategic alliance with Medtronic, we are confident that our business will expand to more countries and have a bright future. Furthermore, with successful research and development of more new products and globalization strategy, we aim at bringing our innovations, technologies and services to millions of global patients and becoming a leading global enterprise.

The following discussion is based on, and should be read in conjunction with, the financial information and the notes thereto included elsewhere in the Interim Report.

REVENUE

Our revenue was approximately RMB149.1 million for the six months ended 30 June 2015, with an increase of approximately RMB13.4 million or approximately 9.9% as compared to the revenue of approximately RMB135.7 million for the six months ended 30 June 2014. The increase was primarily attributable to an increase of approximately RMB12.5 million in revenue from the peripheral vascular diseases business.

Revenue from congenital heart diseases business

The turnover contributed by the congenital heart diseases business for the six months ended 30 June 2015 was approximately RMB61.7 million (corresponding period in 2014: approximately RMB61.2 million), realized a slight growth of 0.8%. The growth was mainly attributable to the steady increase in the sales of Cera Occluders in China. The sales of CeraFlex Occluder in overseas market had slightly decreased due to the uncertain global economic environment.

Revenue from peripheral vascular diseases business

The turnover contributed by the peripheral vascular diseases business for the six months ended 30 June 2015 was approximately RMB87.0 million (corresponding period in 2014: approximately RMB74.5 million), representing a growth of approximately 16.8%. The growth was mainly attributable to more hospitals penetration and increasing market share in China and economic return from overseas market entry.

Revenue from surgical vascular repair business

The products we offered in the surgical vascular repair business are mainly heart valves. Revenue generated from the sales of surgical vascular repair business was RMB412,000 for the six months ended 30 June 2015 (corresponding period in 2014: approximately RMB6,000). The increase was mainly because Medtronic promoted the heart valve through their distributor in China. However, the products had not yet been launched in terminal hospitals.

GROSS PROFIT AND GROSS PROFIT MARGIN

As a result of the increased sales and diversity of our products, gross profit of the Group increased by approximately 10.4% from approximately RMB111.8 million for the six months ended 30 June 2014 to approximately RMB123.4 million for the six months ended 30 June 2015.

OTHER REVENUE AND OTHER GAINS AND LOSSES

We had other revenue and other gain and loss of approximately RMB3.0 million for the six months ended 30 June 2015, while other revenue and other gain and loss was approximately RMB2.6 million for the six months ended 30 June 2014. The increase in other revenue was attributable to the increase of income recognition of government grants.

SELLING AND DISTRIBUTION EXPENSES

Selling and distribution expenses decreased by 1.8% from approximately RMB32.7 million for the six months ended 30 June 2014 to approximately RMB32.1 million for the six months ended 30 June 2015. The decrease was primarily due to (i) a decrease of marketing expenses, and travel and entertainment expenses resulting from the delay of some conferences and tradeshows; and (ii) a decrease of logistic expenses because of the reasonable control of inventory in our European customer service center.

ADMINISTRATIVE EXPENSES

Administrative expenses decreased by 47.2% from approximately RMB39.8 million for the six months ended 30 June 2014 to approximately RMB21.0 million for the six months ended 30 June 2015. The decrease was primarily due to the service fee of approximately RMB20.7 million incurred during the six months ended 30 June 2014 which was payable to Medtronic pursuant to the service agreement between the two companies entered into in 2012 and the second supplemental service agreement entered into in 2014. Excluding the service fee paid and payable to Medtronic, the administrative expenses for the six months ended 30 June 2015 were almost identical to the record occurred during the corresponding period in 2014.

RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses increased by 26.7% from approximately RMB16.5 million for the six months ended 30 June 2014 to approximately RMB20.9 million for the six months ended 30 June 2015. The increase was primarily due to (i) higher expenditure in developing projects; and (ii) an increase of salary, bonus, share-based payment incentive and related expenses for additional staffs in research and development department.

OPERATING PROFIT

During the six months ended 30 June 2015, we recorded an operating profit of approximately RMB52.4 million, which represents a substantial increase of approximately 106.3% as compared to the operating profit of approximately RMB25.4 million for the six months ended 30 June 2014. Such increase was primarily due to (i) the growth of sales and the increase of income recognition of government grants; and (ii) the decrease of the administration expenses resulting mainly from the decrease of the service fee of approximately RMB20.7 million recorded in the corresponding period in 2014 which was payable to Medtronic pursuant to the service agreement between the two companies entered into in 2012 and the second supplemental service agreement entered into in 2014.

MANAGEMENT DISCUSSION AND ANALYSIS

FAIR VALUE LOSS ON CONVERTIBLE NOTES

During the six months ended 30 June 2015, the fair value loss on convertible notes issued to Medtronic was approximately RMB237.5 million (corresponding period in 2014: approximately RMB239.7 million).

FINANCE INCOME AND FINANCE COSTS

Finance income decreased by 52.6% from approximately RMB1.9 million for the six months ended 30 June 2014 to approximately RMB0.9 million for the six months ended 30 June 2015. The decrease was primarily due to the recording of loan interest income of approximately RMB1.3 million in the six months ended 30 June 2014.

Finance costs was approximately RMB6.5 million for the six months ended 30 June 2015, representing the effective interest expenses arising from the convertible notes issued to Medtronic (corresponding period in 2014: approximately RMB5.5 million).

INCOME TAX

Income tax increased from approximately RMB4.0 million for the six months ended 30 June 2014 to approximately RMB11.4 million for the six months ended 30 June 2015. The increase in the Company's income tax was primarily due to the increase of profit before tax of the PRC subsidiaries, which included the growth of sales, the increase of recorded income of government grants and also the decrease of the administration expenses.

NET LOSS

Net loss attributable to owners of the Company for the six months ended 30 June 2015 was approximately RMB202.2 million, as compared with a net loss of approximately RMB199.2 million for the six months ended 30 June 2014. The loss was mainly due to the continuous record of the fair value loss of conversion option of the First Tranche Convertible Notes (as defined in the circular of the Company dated 6 January 2013) issued on 30 January 2013. Excluding the fair value loss of conversion option of approximately RMB237.5 million (corresponding period in 2014: approximately RMB239.7 million), the Group recorded a net profit of approximately RMB35.3 million for the six months ended 30 June 2015, representing a decrease of 12.8% from approximately RMB40.5 million for the six months ended 30 June 2014. The decrease was mainly because of an approximately RMB24.6 million gain on disposal of an associate recorded during the corresponding period in 2014. Based on the fact that the fair value loss on convertible notes is a non-operating and non-cash subject in nature and the disposal of an associate was an one-off transaction, the Board is of the view that the Group's operating and financial positions are healthy and the Board remains positive on the prospects of the Group.

LIQUIDITY AND FINANCIAL RESOURCES

During the six months ended 30 June 2015, the Group mainly financed its operations with its own working capital and equity funding.

As at 30 June 2015, the Group had net current assets of approximately RMB282.0 million (31 December 2014: approximately RMB322.4 million), including cash and bank balances of approximately RMB261.2 million (31 December 2014: approximately RMB256.3 million).

BORROWINGS

On 8 June 2015, Lifetech Scientific (Shenzhen) Co., Ltd. (“Lifetech Shenzhen”, the “Borrower”), being one of our key operating subsidiaries in the PRC, and China Construction Bank Co., Ltd. Shenzhen branch (the “Lender”) entered into the loan agreement (the “Loan Agreement”) and pledge agreement (the “Pledge Agreement”), pursuant to which the Lender agreed to lend the loan amount of RMB200 million (equivalent to approximately HK\$253.6 million) to Lifetech Shenzhen, with interest rate of the benchmark interest rate commencing on the day the loan money is drawn from the bank and adjusted 10% below to 60% rise benchmark interest rate, for on-lending to the Borrower for a term of five years subject to the terms and conditions under the Loan Agreement. Under the Loan Agreement, Lifetech Shenzhen had pledged its land use right held for own use with a net book value of approximately RMB35.2 million and headquarters building which is in the process of construction for the purpose of securing the bank borrowing. The mortgage procedure of the land use right has been completed in August 2015, and the building mortgage application will start to conduct upon completion of the construction. We will get the loan amount in batches according to the payment of the construction of the building upon completion of the pledge of the land use right.

GEARING RATIO

As at 30 June 2015, the gearing ratio (calculated as a ratio of convertible notes to total equity) of the Group is approximately increased to a high negative level of 226.8%, as compared to a low level of approximately 50.2% as of 31 December 2014. Such change was mainly due to the accumulated fair value loss of conversion option of the First Tranche Convertible Notes (as defined in the circular of the Company dated 6 January 2013) issued on 30 January 2013 of approximately RMB335.7 million as at 30 June 2015. However, based on the fact that fair value loss on convertible notes is a non-operating and non-cash flow item, there is no effect on the debt repayment.

CAPITAL STRUCTURE

Total equity attributable to equity holders of the Company amounted to approximately negative RMB44.0 million as at 30 June 2015 compared to approximately RMB151.2 million as at 31 December 2014. Such change was mainly due to the accumulated fair value loss of conversion option of the First Tranche Convertible Notes (as defined in the circular of the Company dated 6 January 2013) issued on 30 January 2013 of approximately RMB335.7 million as at 30 June 2015. As of 30 June 2015, there were no short-term bank borrowings and interest of bank borrowings except for the loan agreement described as in the section headed “Borrowings” in this Interim Report.

LAND ACQUISITION AND BUILDING CONSTRUCTION

On 19 February 2013, Lifetech Shenzhen made a successful bid for the land use right in respect of the land located at lot T205-0008, Gaoxin South 1st Road, Nanshan Gaoxin District, Shenzhen, the PRC (the “Land”) at a price of RMB37,020,000 (equivalent to approximately HK\$45,697,000) through an open tender organized by the Shenzhen Land Transaction Centre. For further details, please refer to announcement of the Company dated 5 July 2013. The deed tax arising from the land acquisition amounts to approximately RMB1.1 million (equivalent to approximately HK\$1.4 million).

MANAGEMENT DISCUSSION AND ANALYSIS

On 19 December 2014, Lifetech Shenzhen entered into the construction contract with the China Construction Fourth Engineering Division the Third Construction & Engineering Co. (中建四局第三建筑工程有限公司) (the “Original Construction Contract”) pursuant to which the Contractor has agreed to undertake the construction work for the Company at the Contract Price (as defined below). The Original Construction Contract was subsequently supplemented by the supplemental agreement entered into between Lifetech Shenzhen and the Contractor dated 19 December 2014. The contract price for the construction work is up to an aggregate amount of RMB250,000,000 which is subject to up to 18% downward adjustments (the “Contract Price”) that is customary within the PRC construction industry and includes but is not limited to the labour cost, material cost, the fees for construction of infrastructure, installation of facilities and construction management, testing fees, inspection fees and other construction cost. The Contract Price was determined after arm’s length negotiations with the Contractor and was based on normal commercial terms with reference to the expertise, experience and market position of the Contractor, along with the complexity and amount of the construction work involved. It is intended that the Contract Price will be financed by internal resources of, and the banking facilities available to the Group. For further details, please refer to the announcement of the Company dated 19 December 2014. As at 30 June 2015, the building is in the process of construction.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATES

No material acquisitions and disposals of subsidiaries and associates occurred during the six months ended 30 June 2015.

UPDATE ON PENDING LITIGATION IN INDIA AND IMPACT ON OUR CONTINGENT LIABILITIES

The Group is currently involved in a lawsuit issue in India. AGA Medical Corporation (“AGA”) filed a suit with the High Court of New Delhi (the “Court”) against our companies, alleging that our occluders sold in India infringed its patent. For details, please refer to the section headed “Risk Factors-Risk Related to Intellectual Property Rights” in the prospectus of the Company dated 31 October 2011 (the “Prospectus”). As at 30 June 2015 and up to the date of this Interim Report, the cross-examinations of all the witnesses of AGA and of the Group were completed and the final arguments are still awaited in the suit.

After seeking legal advice, the Board is of the opinion that it is not probable that the Court will grant a permanent injunction to the plaintiff and it is also not probable for the Court to award damages to the plaintiff or direct delivery of infringing devices. Accordingly, the Board considers that no provision is necessary for any potential liability in the consolidated financial statements.

Save as disclosed in this report, the Group did not have any other contingent liabilities as of 30 June 2015.

FOREIGN EXCHANGE RISK

During the six months ended 30 June 2015, the Group’s operations are primarily based in the PRC and India. The revenue derived from India accounted for approximately 7.0% (corresponding period in 2014: approximately 7.8%) of the total revenue of the Group. The financial statements of Lifetech Scientific India Private Limited, our sole subsidiary in India are presented in Renminbi, and in the Group a portion of the revenue and expenses are denominated in US Dollar and Euro. Indian Rupees and Euro were unstable during the six months ended 30 June 2015, and the Group’s operational results and financial condition may be affected by changes in the exchange rates of Renminbi against India Rupees and Euro. To minimize exposure to foreign exchange risk, most of the bank deposits of the Group are being kept in Renminbi. The directors of the Company (the “Directors”) believe that there is no significant foreign exchange risk to the Group. Therefore, the Group had not implemented any formal hedging or other alternative policies to deal with such exposure during the period.

CHARGES ON GROUP ASSETS

As at 30 June 2015, the Group had pledged its land use right held for own use with a net book value of approximately RMB35.2 million and headquarters building which is in the process of construction for the purpose of securing a bank borrowing with a carrying value of RMB200 million, the mortgage procedure of the land use right has been completed in August 2015.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2015, the Group had 577 (corresponding period in 2014: 537) full time employees and 2 executive Directors (corresponding period in 2014: 2). Total staff costs, including Directors' emoluments, amounted to approximately RMB38.8 million for six months ended 30 June 2015 (corresponding period in 2014: approximately RMB31.9 million). In respect of retirement benefit scheme, the defined contribution plan is adopted by the Group. The amount of contributions to retirement benefits scheme for the six months ended 30 June 2015 is approximately RMB3.2 million (corresponding period in 2014: approximately RMB2.3 million). Forfeited contributions (by employers on behalf of employees who leave the scheme prior to vesting fully in such contributions) may not be used by the Group to reduce the existing level of contributions.

The Group's remuneration policies were determined with reference to the performance, qualification and experience of individual employee, as well as the results of the Group and the market conditions. The benefits provided by the Group to its employees include discretionary bonus, basic medical insurance, work injury insurance, unemployment insurance and share options to the employees. Discretionary bonus is linked to the performance of the Group as well as individual performance. A share option scheme (the "Share Option Scheme") has also been adopted for employees of the Group on 22 October 2011 which was subsequently amended by an unanimous written resolutions of the Board on 5 May 2015. In order to ensure that the Group's employees remain competitive in the industry, the Group also arranges its staff for training to enhance their skills and knowledge.

SHARE SUBDIVISION

On 12 January 2015, upon the share subdivision become effective, each of the issued and unissued shares of par value of US\$0.00001 each in the share capital of the Company was subdivided into eight (8) subdivided shares of par value of US\$0.00000125 each. The authorized share capital of the Company become US\$50,000 divided into 40,000,000,000 subdivided shares of US\$0.00000125 each and the issued share capital become US\$5,000 divided into 4,000,000,000 subdivided shares of US\$0.00000125 each. For further details, please refer to the announcement of the Company dated 5 December 2014, the circular of the Company dated 22 December 2014 and the announcement of the Company dated 9 January 2015.

FUTURE PROSPECTS

The Group will continue to rely on its two core businesses, namely congenital heart diseases business and peripheral vascular diseases business, for growth potential in the second half year of 2015. The Group will also actively expand its product offering and strengthen its established market position. And we believe the revolutionary LAmbré™ LAA occluder will strengthen our leading position in the field of congenital heart diseases business and the field of structure heart diseases business. We are committed to bringing LAmbré™ LAA occluder to the international markets and Chinese market after getting CE and CFDA approval next year.

We will continue to enhance our sales force and network and continue to promote CeraFlex products actively in Europe, Asia, Latin America, Russia, and conduct sales in several countries. Moreover, we also continued to promote stent graft in Eastern Europe, Southern Europe, Asia, Latin America, and conduct sales in several countries. We will keep our focus on broadening our product portfolio as well as designing innovative products to help capitalize on our growing sales network and infrastructure.

MANAGEMENT DISCUSSION AND ANALYSIS

In the meantime, we expect additional sales from the distribution of our products by Medtronic according to the Second Supplement Distribution Agreement and we are confident that our alliance will bring generous financial benefit. Our strategic investment activities will contribute toward transforming the Company into a truly global player. We believe our investment activities and international business operations will further enhance our geographical coverage and allow the Company to internationalize its revenue base with a presence in the Europe, Asia and Latin America markets.

We will continue to evaluate and explore acquisitions, partnerships, alliances and licensing opportunities in the second half year of 2015, to enhance our competitiveness and market position in current key markets as well as selective new markets.

Through the platform of LKEP and participation in international large-scale exhibitions, and also the holding of more workshops, we will maintain the strong focus on all aspects of medical education, from large international didactic meetings to more personal surgeon-to-surgeon learning opportunities. In the PRC and overseas, we will launch medical education centers in the second half of this year to train distributors and surgeons about the knowledge of our products.

USE OF PROCEEDS GENERATED FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The net proceeds from the Company's issue of new shares at the time of its listing in November 2011, after deduction of related expenses, amounted to approximately HK\$156.6 million. During the six months ended 30 June 2015, the net proceeds from issuance of new shares of the Company had been applied as follows:

	Planned use of proceeds as stated in the Prospectus from Listing to 30 June 2015 (HK\$ million)	Actual use of proceeds from Listing to 30 June 2015 (HK\$ million)
1 Enhance market position of core cardiovascular and peripheral vascular devices in key emerging markets	8.0	7.6
2 Continue to develop and commercialize pipeline products	46.0	46.0
3 Expansion into key international markets with current and pipeline products	8.0	7.6
4 Expansion of our manufacturing facilities	88.0 (<i>Note 1</i>)	85.9
5 Expansion into complementary product offers and pursue opportunistic acquisitions, partnerships, alliances and licensing opportunities	10.0 (<i>Note 2</i>)	9.5

Note 1 On 19 February 2013, Lifetech Shenzhen made a successful bid for the land use right in respect of the land located in Nanshan District, Shenzhen, the PRC at a price of RMB37,020,000 (equivalent to approximately HK\$45,697,000) through an open tender organized by the Shenzhen Land Transaction Centre. The deed tax arising from the land acquisition amounts to approximately RMB1.1 million (equivalent to approximately HK\$1.4 million). Other expenditure arisen is approximately HK\$38.8 million.

Note 2 This represents the amount which can be allocated to any of the period from November 2011 to 30 June 2015.

As at the date of this Interim Report, all the remaining proceeds have been used up.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company is committed to achieving high standards of corporate governance to safeguard the interest of its shareholders (the “Shareholders”) and enhance its corporate value. The Company has applied the principles as set out in the Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) (the “CG Code”) as its own code of corporate governance and confirms that it has complied with all material code provisions of the CG Code during the six months ended 30 June 2015, save for the deviation from code provision A.2.1 of the CG Code as mentioned below.

According to code provision A.2.1 of the CG Code, the roles of the chairman and chief executive officer should be separate and should not be performed by the same individual. Subsequent to the resignation of Mr. ZHAO Yiwei Michael as chief executive officer of the Company on 2 March 2015, Mr. XIE Yuehui, chairman of the Board, has been appointed to act as the chief executive officer of the Company. Accordingly, the roles of the chairman of the Board and the chief executive officer are performed by the same individual. Although the dual roles of the chairman and chief executive officer is a deviation from the code provision A.2.1 of the CG Code, the Board believes that vesting the roles of both chairman and chief executive officer in an experienced and qualified person such as Mr. XIE Yuehui provides the Company with strong and consistent leadership while allowing for effective and efficient planning and implementation of business decisions and strategies.

The Board will review the corporate governance structure and practices from time to time and shall make necessary arrangements when the Board considers appropriate.

THE BOARD

The Board currently comprises nine Directors, including two executive Directors, viz, Mr. XIE Yuehui and Mr. LIU Jianxiong; four non-executive Directors, viz, Mr. WU Jianhui, Mr. CLEARY Christopher Michael, Mr. MONAGHAN Shawn Del and Mr. JIANG Feng; and three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications, or accounting or related financial management expertise, viz, Mr. LIANG Hsien Tse Joseph, Mr. ZHOU Gengshen and Mr. ZHOU Luming.

Notes:

1. Mr. ZHAO Yiwei Michael has resigned as executive Director with effective from 2 March 2015.
2. Mr. LIU Jianxiong has been appointed as non-executive Director and was re-designated as executive Director with effect from 27 March 2015.
3. Dr. LIDDICOAT John Randall has resigned as non-executive Director with effective from 27 March 2015.
4. Mr. MONAGHAN Shawn Del has been appointed as non-executive Director with effective from 27 March 2015.
5. Mr. MARTHA Geoffrey Straub has resigned as non-executive Director with effective from 27 August 2015.
6. Mr. CLEARY Christopher Michael has been appointed as non-executive Director with effective from 27 August 2015.

The Corporate Information on page 2 of this Interim Report includes changes disclosed above.

CORPORATE GOVERNANCE HIGHLIGHTS

UPDATE ON BIOGRAPHY OF DIRECTORS PURSUANT TO RULE 13.51B(1) OF THE LISTING RULES

In June 2015, Mr. XIE Yuehui, chairman, chief executive officer, and executive Director was appointed as representative of the Sixth Shenzhen Municipal People's Congress.

On 26 June 2015, Mr. LIANG Hsien Tse Joseph, one of our independent non-executive Directors, was resigned as an independent non-executive director of China Animal Healthcare Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 940).

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct for dealing in securities of the Company by the Directors on terms no less exacting than the required standard set out in the Model Code.

Having made specific enquiry with all the Directors, the Company confirmed that all members of the Board complied with the Model Code during the six months ended 30 June 2015.

Senior management, executives and staffs who, because of their offices in the Company, are likely to possess inside information, have also been requested to comply with the provision of the Model Code. No incident of non-compliance with the Model Code by such employees was noted by the Company during the six months ended 30 June 2015.

AUDIT COMMITTEE AND REVIEW OF INTERIM RESULTS

The Company has established an audit committee (the "Audit Committee") in accordance with the corporate governance requirements of listed companies of the Stock Exchange. As at the date of this report, the Audit Committee consists of three members, the majority of whom are independent non-executive Directors, namely Mr. LIANG Hsien Tse Joseph, a director with the appropriate professional qualifications who serves as the chairman of the Audit Committee, Mr. WU Jianhui and Mr. ZHOU Gengshen.

The Group's unaudited interim results for the six months ended 30 June 2015 have been reviewed by the Audit Committee, which was of the opinion that the preparation of such results was in compliance with the relevant accounting standards, the Listing Rules and the applicable legal requirements, and that adequate disclosure has been made.

OTHER INFORMATION

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ITS ASSOCIATED CORPORATIONS

As at 30 June 2015, the interests and short positions of the Directors and chief executives of the Company in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required (a) to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or (b) to be and were entered into the register required to be kept by the Company pursuant to Section 352 of the SFO, or (c) as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Long positions in Shares and underlying shares of the Company

Name of Director/ chief executive	Capacity	Number of Shares (long position)	Approximate percentage of shareholding
Mr. XIE Yuehui	Interest of Controlled Corporation and Beneficial owner	801,514,928 ¹	20.04%
Mr. WU Jianhui	Interest of Controlled Corporation	473,626,656 ²	11.84%
Mr. LIU Jianxiong	Beneficial owner	24,800,000 ³	0.62%

Notes:

- These interests represented:
 - 781,914,928 Shares held by Xianjian Advanced Technology Limited, which is wholly owned by Mr. XIE Yuehui, our chairman, chief executive officer and executive Director; and
 - 19,600,000 options granted to Mr. XIE Yuehui, which were subject to certain vesting conditions pursuant to the Share Option Scheme of the Company, details of which are set out in the section headed "Share Option Scheme" in this Interim Report.
- These Shares are held by GE Asia Pacific Investments Ltd., which is wholly owned by Mr. WU Jianhui, our non-executive Director.
- These interests represented:
 - 8,000,000 Shares held by Mr. LIU Jianxiong, our executive Director, chief financial officer and company secretary; and
 - 16,800,000 options granted to Mr. LIU Jianxiong, which were subject to certain vesting conditions pursuant to the Share Option Scheme of the Company, details of which are set out in the section headed "Share Option Scheme" in this Interim Report.

OTHER INFORMATION

Save as disclosed above, as at 30 June 2015, so far as is known to any Directors or chief executives of the Company, none of the Directors or chief executives of the Company had any interests or short positions in the Shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or (b) to be entered in the register required to be kept by the Company pursuant to section 352 of the SFO, or (c) as otherwise to be notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 30 June 2015, other than the interests of a Director or chief executive of the Company as disclosed under the heading "Directors' and chief executives' interests and short position in shares, underlying shares and debentures of the Company or its associated corporations" above, the interests and short positions of persons in the Shares and underlying shares of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company under section 336 of the SFO, or who was, directly or indirectly, interested in 5% or more of the issued Shares, were as follows:

(a) Long positions in Shares of the Company

Name of Shareholder	Capacity	Number of Shares (long position)	Approximate percentage of shareholding
Xianjian Advanced Technology Limited ¹	Beneficial owner	781,914,928	19.55%
GE Asia Pacific Investments Ltd. ²	Beneficial owner	473,626,656	11.84%
Medtronic KL Holdings LLC ³	Beneficial owner	760,000,000	19.00%
Medtronic Holding Switzerland G.m.b.H. ³	Interest of controlled corporation	760,000,000	19.00%
Medtronic B.V. ³	Interest of controlled corporation	760,000,000	19.00%
Medtronic International Technology, Inc. ³	Interest of controlled corporation	760,000,000	19.00%
Medtronic, Inc. ³	Interest of controlled corporation	760,000,000	19.00%
Medtronic Holding, Inc. ³	Interest of controlled corporation	760,000,000	19.00%
Medtronic Group Holding, Inc. ³	Interest of controlled corporation	760,000,000	19.00%
Medtronic plc ³	Interest of controlled corporation	760,000,000	19.00%

OTHER INFORMATION

Notes:

1. The entire issued share capital of Xianjian Advanced Technology Limited is wholly owned by Mr. XIE Yuehui, our chairman, chief executive officer and executive Director.
2. The entire issued share capital of GE Asia Pacific Investments Ltd. is wholly owned by Mr. WU Jianhui, our non-executive Director.
3. The entire issued share capital of Medtronic KL Holdings LLC is controlled as to 90.33% by Medtronic Holding Switzerland G.m.b.H., which in turn is wholly-owned by Medtronic B.V.. Medtronic B.V. is wholly-owned by Medtronic International Technology, Inc., which in turn is wholly-owned by Medtronic, Inc.. Medtronic, Inc. is wholly owned by Medtronic Holding, Inc., which in turn is wholly owned by Medtronic Group Holding, Inc.. Medtronic Group Holding, Inc. is wholly owned by Medtronic plc.

(b) Derivative interests

Name of Shareholder	Capacity	Number of Shares (long position)	Approximate percentage of shareholding
Medtronic KL Holdings LLC ^{1 and 2}	Beneficial owner	3,028,571,432	75.71%
Medtronic Holding Switzerland G.m.b.H. ^{1 and 2}	Interest of controlled corporation	3,028,571,432	75.71%
Medtronic B.V. ^{1 and 2}	Interest of controlled corporation	3,028,571,432	75.71%
Medtronic International Technology, Inc. ^{1 and 2}	Interest of controlled corporation	3,028,571,432	75.71%
Medtronic, Inc. ^{1 and 2}	Interest of controlled corporation	3,028,571,432	75.71%
Medtronic Holding, Inc. ^{1 and 2}	Interest of controlled corporation	3,028,571,432	75.71%
Medtronic Group Holding, Inc. ^{1 and 2}	Interest of controlled corporation	3,028,571,432	75.71%
Medtronic plc ^{1 and 2}	Interest of controlled corporation	3,028,571,432	75.71%

Notes:

1. The entire issued share capital of Medtronic KL Holdings LLC is controlled as to 90.33% by Medtronic Holding Switzerland G.m.b.H., which in turn is wholly-owned by Medtronic B.V., Medtronic B.V. is wholly-owned by Medtronic International Technology, Inc., which in turn is wholly-owned by Medtronic, Inc.. Medtronic, Inc. is wholly owned by Medtronic Holding, Inc., which in turn is wholly owned by Medtronic Group Holding, Inc.. Medtronic Group Holding, Inc. is wholly owned by Medtronic plc.
2. Capitalized terms used in this paragraph shall have the same meanings as those defined in the circular of the Company dated 6 January 2013. These shares are the underlying shares to be issued upon the full conversion of the First Tranche Convertible Notes and the Second Tranche Convertible Notes pursuant to the terms and conditions under the Investment Agreement dated 14 October 2012. Completion of the subscription of the First Tranche Convertible Notes at the principal amount of HK\$152 million, which are convertible into 40,000,000 new shares at the initial conversion price of HK\$3.80, took place on 30 January 2013. The convertible shares are adjusted from 40,000,000 to 320,000,000 and initial conversion price is adjusted from HK\$3.80 to HK\$0.475 as share subdivision of the Company became effective on 12 January 2015. As at the date of this Interim Report, the Company has not been notified by the noteholder of its intention to convert the First Tranche Convertible Notes, and the subscription of the Second Tranche Convertible Notes is pending to be completed.

OTHER INFORMATION

Other than as disclosed above, as at 30 June 2015, the Directors have not been notified by any person (other than the Directors or chief executives of the Company) who had interests or short position in the Shares or underlying shares of the Company as recorded in the register required to be kept pursuant to Section 336 of the SFO.

SHARE OPTION SCHEME

The Company has adopted the Share Option Scheme on 22 October 2011 and the Share Option Scheme has been amended by an unanimous written resolutions of the Board on 5 May 2015. Such amendment to the Share Option Scheme was made due to the transfer of listing of the Shares from Growth Enterprise Market of the Stock Exchange to the Main Board of the Stock Exchange ("Transfer of Listing") and in order to ensure that the references and margin notes quoted and referred to therein are in compliance and consistent with the Listing Rules.

During the six months ended 30 June 2015, an aggregate of 160,000,000 Shares, which represented approximately 4.00% of the Shares in issue as at 30 June 2015, were granted subject to certain vesting conditions pursuant to the Share Option Scheme to certain eligible participants (the "Grantees"), including grant of 19,600,000 Shares and 16,800,000 Shares made to two executive Directors, namely Mr. XIE Yuehui and Mr. LIU Jianxiong respectively. As at 30 June 2015, 160,000,000 Shares granted pursuant to the Share Option Scheme, which represented approximately 4.00% of the Shares in issue as at 30 June 2015, remained unvested.

The table below sets out details of the outstanding options granted to the Directors and other grantees under the Share Option Scheme and movements during the period from the date of grant to 30 June 2015:

Name	Date of Grant	Vesting schedule	Option period	Exercise price	Granted on the date of grant	Outstanding as at 1/1/2015	Number of Shares		Outstanding as at 30/06/2015
							Exercised during the six months ended 30/06/2015	Cancelled/ Lapsed during the six months ended 30/06/2015	
Directors/ chief executive									
Mr. XIE Yuehui	5/5/2015	20% of options on 5 May 2016, 2017, 2018, 2019 and 2020 respectively	10 years from the date of grant	HK\$1.464	19,600,000	—	—	—	19,600,000
Mr. LIU Jianxiong	5/5/2015	20% of options on 5 May 2016, 2017, 2018, 2019 and 2020 respectively	10 years from the date of grant	HK\$1.464	16,800,000	—	—	—	16,800,000
Other Grantees									
Aggregate of other Grantees	5/5/2015	20% of options on 5 May 2016, 2017, 2018, 2019 and 2020 respectively	10 years from the date of grant	HK\$1.464	123,600,000	—	—	(1,124,000)	122,476,000

OTHER INFORMATION

INTERIM DIVIDEND

The Directors did not recommend the payment of any interim dividend for the six months ended 30 June 2015 (corresponding period in 2014: Nil).

DIRECTOR'S RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from the details as disclosed under the heading "Directors' and chief executives' interests and short position in shares, underlying shares and debentures of the Company or its associated corporations" above, at no time during the six months ended 30 June 2015 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company and any of its subsidiaries a party to any arrangement to enable the Directors, or their respective spouse or children under 18 years of age, to acquire such rights in any other body corporate.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended 30 June 2015, there were no purchases, sales or redemptions of the Company's listed securities by the Company or any of its subsidiaries.

DIRECTOR'S INTERESTS IN COMPETING BUSINESS

In order to restrict competition activities with the Company, Mr. XIE Yuehui, Mr. WU Jianhui, Xianjian Advanced Technology Limited and GE Asia Pacific Investments Ltd. (collectively, the "Covenantors") have entered into a deed of non-competition dated 22 October 2011 in favour of the Company (the "Non-Competition Deed").

The undertakings and covenants stipulated under the Non-Competition Deed cover any business which involves the business of the Group as described in the Prospectus and any other business from time to time conducted by any member of the Group in Hong Kong, the PRC and such other parts of the world where by any of the Group carries on business from time to time.

In determining whether the Covenantors had fully complied with the non-competition undertakings during the six months ended 30 June 2015 for the semi-annual assessment, the Company noted that (a) the Covenantors declared that they had fully complied with the non-competition undertakings in the Non-Competition Deed for the six months ended 30 June 2015, (b) no new competing business was reported by the Covenantors during the six months ended 30 June 2015, and (c) there was no particular situation rendering the full compliance of the Noncompetition Undertakings being questionable.

In view of the above, the Company confirmed that all of the non-competition undertakings in the Non-Competition Deed have been complied with by the Covenantors for the six months ended 30 June 2015, and the Directors were not aware of any business or interest of the Directors, the management shareholders of the Company and their respective associates (as defined under the Listing Rules) and the Covenantors that had competed or might compete with the business of the Group and any other conflicts of interests which any such person had or might have with the Group during the same reporting period.

OTHER INFORMATION

SUFFICIENCY OF THE PUBLIC FLOAT

Based on the information publicly available to the Company and to the best knowledge, information and belief of the Directors, the Directors confirm that the Company had maintained a sufficient public float as required under the Listing Rules throughout the six months ended 30 June 2015.

DISCLOSURE OF INFORMATION

The Interim Report of the Group for the six months ended 30 June 2015 containing all the relevant information required by the Listing Rules has been published on the websites of Hong Kong Exchanges and Clearing Limited (<http://www.hkexnews.hk>) and the Company (<http://www.lifetechmed.com>).

On behalf of the Board

LifeTech Scientific Corporation

XIE Yuehui

Chairman, Chief Executive Officer and Executive Director

Hong Kong, 28 August 2015

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2015

The Board of Directors of the Company is pleased to announce the unaudited condensed consolidated results of the Group for the six months ended 30 June 2015 together with the comparative figures for the corresponding period in 2014 and the relevant explanatory notes as set out below.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2015

	NOTES	Six months ended 30 June	
		2015 RMB'000 (Unaudited)	2014 RMB'000 (Unaudited)
Revenue	4	149,142	135,704
Cost of sales		(25,784)	(23,867)
Gross profit		123,358	111,837
Other income and other gains and losses		2,979	2,576
Selling and distribution expenses		(32,085)	(32,662)
Administration expenses		(20,977)	(39,794)
Research and development expenses		(20,912)	(16,542)
Operating profit		52,363	25,415
Finance income		934	1,850
Finance costs		(6,467)	(5,544)
Finance costs, net		(5,533)	(3,694)
Share of results of an associate		122	224
Gain on disposal of an associate		—	24,570
Net exchange gain (loss) on convertible notes	16	139	(1,827)
Fair value loss on convertible notes	16	(237,475)	(239,706)
Loss before tax	5	(190,384)	(195,018)
Income tax expense	6	(11,444)	(3,959)
Loss for the period		(201,828)	(198,977)
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation foreign operations		857	(256)
Share of exchange gain of an associate		—	54
Other comprehensive income (expense) for the period		857	(202)
Total comprehensive expense for the period		(200,971)	(199,179)
Loss for the period attributable to:			
Owners of the Company		(202,172)	(199,236)
Non-controlling interests		344	259
		(201,828)	(198,977)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2015

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2015

	NOTE	Six months ended 30 June	
		2015 RMB'000 (Unaudited)	2014 RMB'000 (Unaudited)
Total comprehensive expense attributable to:			
Owners of the Company		(201,315)	(199,438)
Non-controlling interests		344	259
		<u>(200,971)</u>	<u>(199,179)</u>
Loss per share	8		
– Basic (RMB)		(0.051)	(0.050)
– Diluted (RMB)		(0.051)	(0.050)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2015

	NOTES	30 June 2015 RMB'000 (Unaudited)	31 December 2014 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment	9	140,055	55,434
Investment properties		1,656	1,693
Intangible assets	9	64,325	53,095
Prepaid lease payments	10	33,893	34,529
Deposits for acquisition of property, plant and equipment		7,464	5,795
Deferred tax assets		12,991	14,156
Interests in associates	11	1,145	1,109
Deposits for acquisition of long term investment/intangible asset	12	12,600	12,600
		274,129	178,411
Current assets			
Inventories		37,240	30,860
Trade receivables	13	56,195	64,873
Other receivables and prepayments		27,402	25,114
Prepaid lease payments	10	1,271	1,271
Structured deposits		10,000	9,440
Bank balances and cash		261,159	256,322
		393,267	387,880
Current liabilities			
Trade and other payables	14	94,339	51,407
Tax payables		16,888	14,106
		111,227	65,513
Net current assets		282,040	322,367
Total assets less current liabilities		556,169	500,778

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2015

	NOTES	30 June 2015 RMB'000 (Unaudited)	31 December 2014 RMB'000 (Audited)
Non-current liabilities			
Government grants	15	34,717	29,395
Convertible notes	16	84,901	78,483
Conversion option derivative liability	16	473,980	236,595
		<u>593,598</u>	<u>344,473</u>
Net assets		<u>(37,429)</u>	<u>156,305</u>
Capital and reserves			
Share capital	17	32	32
Share premium and reserves		<u>(44,046)</u>	<u>151,232</u>
Equity attributable to owners of the Company		<u>(44,014)</u>	<u>151,264</u>
Non-controlling interests		<u>6,585</u>	<u>5,041</u>
Total equity		<u>(37,429)</u>	<u>156,305</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2015

	Attributable to owners of the Company											
	Share capital	Share premium	Translation reserve	Statutory surplus reserve	Capital reserve	Contribution reserve	Share option reserve	Accumulated losses	Total	Non-controlling interests	Total equity	
	RMB'000	RMB'000	RMB'000	RMB'000 (Note i)	RMB'000	RMB'000 (Note ii)	RMB'000 (Note iii)	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2014	32	251,593	1,409	28,984	(421)	32,531	—	(82,610)	231,518	4,529	236,047	
Loss for the period	—	—	—	—	—	—	—	(199,236)	(199,236)	259	(198,977)	
Other comprehensive expense for the period	—	—	(202)	—	—	—	—	—	(202)	—	(202)	
Total comprehensive expense for the period	—	—	(202)	—	—	—	—	(199,236)	(199,438)	259	(199,179)	
At 30 June 2014 (unaudited)	<u>32</u>	<u>251,593</u>	<u>1,207</u>	<u>28,984</u>	<u>(421)</u>	<u>32,531</u>	<u>—</u>	<u>(281,846)</u>	<u>32,080</u>	<u>4,788</u>	<u>36,868</u>	
At 1 January 2015	32	251,593	2,399	34,373	(421)	32,531	—	(169,243)	151,264	5,041	156,305	
Loss for the period	—	—	—	—	—	—	—	(202,172)	(202,172)	344	(201,828)	
Other comprehensive income for the period	—	—	857	—	—	—	—	—	857	—	857	
Total comprehensive income (expense) for the period	—	—	857	—	—	—	—	(202,172)	(201,315)	344	(200,971)	
Contribution from non-controlling interest of a subsidiary	—	—	—	—	—	—	—	—	—	1,200	1,200	
Recognition of equity-settled share-based payments	—	—	—	—	—	—	6,037	—	6,037	—	6,037	
At 30 June 2015 (unaudited)	<u>32</u>	<u>251,593</u>	<u>3,256</u>	<u>34,373</u>	<u>(421)</u>	<u>32,531</u>	<u>6,037</u>	<u>(371,415)</u>	<u>(44,014)</u>	<u>6,585</u>	<u>(37,429)</u>	

Notes:

- (i) Statutory surplus reserve is non-distributable and the transfer to this reserve is determined according to the relevant laws in the PRC and by the board of directors of the PRC subsidiaries in accordance with the Article of Association of the subsidiaries. Statutory surplus reserve can be used to make up for previous year's losses or convert into additional capital of the PRC subsidiaries of the Company.
- (ii) Contribution reserve represents the difference between the fair value of the consideration paid for the acquisition of Lifetech Scientific (Shenzhen) Co., Ltd. 先健科技(深圳)有限公司 from shareholders and the carrying amount of the share of net assets acquired in August 2006 and it is regarded as a deemed contribution from shareholders under merger accounting.
- (iii) A Share Option Scheme has been adopted for employees of the Group on 22 October 2011 and which has been amended by an unanimous written resolutions of the Board on 5 May 2015. Share option reserve represents recognition of equity-settled share-based payments during the six months ended 30 June 2015 in relation to share options granted by the Company.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2015

	Six months ended 30 June	
	2015 RMB'000 (Unaudited)	2014 RMB'000 (Unaudited)
NET CASH FROM (USED IN) OPERATING ACTIVITIES	42,829	(18,585)
INVESTING ACTIVITIES		
Deposits paid for and purchase of property, plant and equipment	(37,303)	(15,284)
Interest received from structured deposits	479	188
Interest received from loan receivable	—	1,312
Expenditure incurred and capitalised as intangible assets	(11,066)	(8,315)
Structured deposits placed	(51,700)	(15,200)
Release of structured deposits	51,140	14,050
Government grants received for acquisition of plant and equipment	8,380	7,500
Loan advanced	—	32,000
Proceeds from disposal of property, plant and equipment	21	—
NET (USED IN) CASH FROM INVESTING ACTIVITIES	(40,049)	16,251
FINANCING ACTIVITIES		
Contributions from non-controlling interests from subsidiaries	1,200	—
NET CASH FROM FINANCING ACTIVITIES	1,200	—
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,980	(2,334)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	256,322	225,468
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	857	(202)
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, representing bank balances and cash	261,159	222,932

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2015

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 17 August 2006 as an exempted company with limited liability and its shares are listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) until 5 November 2013 when its shares were delisted from the Growth Enterprise Market of the Stock Exchange, and its shares were listed on the Main Board of the Stock Exchange by way of transfer of listing on 6 November 2013. Its ultimate controlling shareholders are Mr. Xie Yuehui, Mr. Wu Jianhui and Medtronic plc (“Medtronic”). A controlling shareholder, Mr. Xie Yuehui, is also the Chairman, Chief Executive Officer and Executive Director of the Company. The address of the registered office is PO Box 309, Ugland House, Grand Cayman, KY1-1104 Cayman Islands, and the address of the principal place of business is Cybio Electronic Building, Langshan 2nd Street, North Area of High-tech Park, Nanshan District, Shenzhen, Guangdong Province, the PRC.

The Company is an investment holding company. The principal activities of the Company and its subsidiaries (collectively referred to as the “Group”) are development, manufacture and trading of advanced interventional medical devices for cardiovascular and peripheral vascular diseases and disorders.

The condensed consolidated financial statements are presented in Renminbi (“RMB”), which is the functional currency of the Company and the Group’s major operating subsidiaries.

2. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 (“IAS 34”) “Interim Financial Reporting” issued by the International Accounting Standards Board (“IASB”) as well as with the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on the The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as appropriate.

Except as described below, the accounting policies used in the condensed consolidated financial statements for the six months ended 30 June 2015 are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2014.

In addition, in the current interim period, the Group has applied, for the first time, a new interpretation and certain amendments to International Financial Reporting Standards (“IFRSs”) issued by the IASB that are mandatorily effective for the current interim period.

The application of the above new interpretation and amendments to IFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2015

3. PRINCIPAL ACCOUNTING POLICIES - continued

Share-based payment arrangements

Share-based payment transactions of the Company

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 18.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

4. SEGMENT INFORMATION

The segment information reported internally was analysed on the basis of their products supplied by the Group's operating divisions which is consistent with the internal information that are regularly reviewed by executive Directors of the Company, the chief operating decision maker, for the purposes of resource allocation and assessment of performance. No operating segments identified by the chief operating decision maker have been aggregated in arriving at the reportable segments of the Group.

The Group's operating segments under IFRS 8 are as follows:

- Congenital heart diseases business: trade, manufacture, research and development of devices related to congenital and structural heart diseases.
- Peripheral vascular diseases business: trade, manufacture, research and development of devices related to peripheral vascular diseases.
- Surgical vascular repair business: trade, manufacture, research and development of devices related to surgical vascular repair.

Information regarding the above segments is reported below.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2015

4. SEGMENT INFORMATION - continued

(a) Segment revenue and results

The following is an analysis of the Group's revenue and results by operating and reportable segments:

	Congenital heart diseases business RMB'000 (Unaudited)	Peripheral vascular diseases business RMB'000 (Unaudited)	Surgical vascular repair business RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
Six months ended 30 June 2015				
SEGMENT REVENUE				
External sales	61,738	86,992	412	149,142
Segment profit (loss)	49,950	74,578	(1,170)	123,358
Unallocated income				
– Other income and other gains and losses				2,979
– Finance income				934
– Share of results of an associate				122
– Net exchange gain on convertible notes				139
Unallocated expense				
– Selling and distribution expenses				(32,085)
– Administration expenses				(20,977)
– Research and development expenses				(20,912)
– Finance costs				(6,467)
– Fair value loss on convertible notes				(237,475)
Loss before tax				(190,384)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2015

4. SEGMENT INFORMATION - continued

(a) Segment revenue and results - continued

	Congenital heart diseases business RMB'000 (Unaudited)	Peripheral vascular diseases business RMB'000 (Unaudited)	Surgical vascular repair business RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
Six months ended 30 June 2014				
SEGMENT REVENUE				
External sales	61,158	74,540	6	135,704
Segment profit	49,134	62,701	2	111,837
Unallocated income				
– Other income and other gains and losses				2,576
– Finance income				1,850
– Share of results of an associate				224
– Gain on disposal of an associate				24,570
Unallocated expense				
– Selling and distribution expenses				(32,662)
– Administration expenses				(39,794)
– Research and development expenses				(16,542)
– Finance costs				(5,544)
– Net exchange loss on convertible notes				(1,827)
– Fair value loss on convertible notes				(239,706)
Loss before tax				(195,018)

Segment profit (loss) represents the gross profit (loss) earned (incurred) by each segment without allocation of all other items of income and expenses, as set out above. This is the measure reported to the chief operating decision maker, the executive Directors of the Company, for the purposes of resources allocation and assessment of segment performance.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2015

4. SEGMENT INFORMATION - continued

(b) Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by operating and reportable segments:

Segment assets

	30 June 2015 RMB'000 (Unaudited)	31 December 2014 RMB'000 (Audited)
Operating segments:		
Congenital heart diseases business	141,387	141,139
Peripheral vascular diseases business	214,600	123,389
Surgical vascular repair business	9,735	5,392
	<hr/>	<hr/>
Total segment assets	365,722	269,920
Unallocated assets		
Property, plant and equipment	888	1,030
Investment properties	1,655	1,693
Deferred tax assets	12,991	14,156
Interests in associates	1,145	1,109
Deposits for acquisition of long term investment/intangible asset	12,600	12,600
Other receivables and prepayments	1,236	21
Structured deposits	10,000	9,440
Bank balances and cash	261,159	256,322
	<hr/>	<hr/>
Consolidated assets	667,396	566,291
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2015

4. SEGMENT INFORMATION - continued

(b) Segment assets and liabilities - continued

Segment liabilities

	30 June 2015 RMB'000 (Unaudited)	31 December 2014 RMB'000 (Audited)
Operating segments:		
Congenital heart diseases business	1,861	2,270
Peripheral vascular diseases business	3,331	3,350
Surgical vascular repair business	149	8
Total segment liabilities	5,341	5,628
Unallocated liabilities		
Other payables	87,488	41,915
Tax payables	16,888	14,106
Government grants	36,227	33,259
Convertible notes	84,901	78,483
Conversion option derivative liability	473,980	236,595
Consolidated liabilities	704,825	409,986

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to operating segments other than bank balances and cash, structured deposits, deferred tax assets, investment properties, certain other receivables and prepayments, interests in associates, deposits for acquisition of long term investment/intangible asset and certain property, plant and equipment, and
- only trade payables are allocated to operating segments in arriving at segment liabilities, which therefore exclude government grants (include current portion under other payables and non-current portion), tax payables, certain other payables, convertible notes and conversion option derivative liability.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2015

5. LOSS BEFORE TAX

	Six months ended 30 June	
	2015 RMB'000 (Unaudited)	2014 RMB'000 (Unaudited)
Loss before tax has been arrived at after charging (crediting):		
Staff costs, including Directors' remuneration		
Salaries, wages and other benefits	41,482	33,197
Retirement benefits scheme contributions	3,204	2,302
Less: capitalised in development costs	(5,858)	(3,576)
	<u>38,828</u>	<u>31,923</u>
Auditor's remuneration	731	71
Cost of inventories recognised as expenses	25,784	23,867
Depreciation of property, plant and equipment	3,069	2,869
Depreciation of investment properties	37	37
Amortisation charge of intangible assets	775	557
Release of prepaid lease payments	636	636
Operating lease rentals in respect of rental premises	3,975	3,875
Government grants	(6,448)	(1,180)
Interest on bank deposits	(455)	(349)
Interest on structured deposits	(479)	(188)
Interest on loan receivable	—	(1,312)
Effective interest expense on convertible notes	6,467	5,544
Gross rental income from investment properties	(644)	(611)
Less: direct operating expenses incurred for investment properties that generated rental income during the year	37	37
	<u>(607)</u>	<u>(574)</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2015

6. INCOME TAX EXPENSE

	Six months ended 30 June	
	2015 RMB'000 (Unaudited)	2014 RMB'000 (Unaudited)
Current tax		
PRC Enterprise Income Tax ("PRC EIT")	10,279	3,683
Deferred tax		
Current period	1,165	276
	<u>11,444</u>	<u>3,959</u>

The Company is tax exempted under the laws of the Cayman Islands. New Centre International Limited 新城市國際有限公司, a subsidiary of the Company, is subject to Hong Kong Profits Tax rate of 16.5% on assessable profits earned in Hong Kong. No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in, nor is derived from, Hong Kong.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% except that two major operating subsidiaries in the PRC were qualified as High and New Technology Enterprises since 2009, and are entitled to a preferential income tax rate of 15%. The qualification of High and New Technology Enterprises is subject to review once every three years and the two major operating subsidiaries continued to be recognised as a hi-tech enterprise for the years ended 31 December 2015 and 2014.

For other PRC subsidiaries which are located in Special Economic Zone of the PRC, their applicable income tax rates are 25% for the period ended 30 June 2015 and 2014 respectively.

The applicable income tax rate of Lifetech Scientific India Private Ltd. is 30.9% on its taxable profits.

7. DIVIDENDS

No dividends were paid, declared or proposed during the interim periods ended 30 June 2015 and 2014. The Directors did not recommend the payment of an interim dividend.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2015

8. LOSS PER SHARE

The calculation of basic and diluted loss per share attributable to the owners of the Company is based on the following data:

	Six months ended 30 June	
	2015	2014
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Loss:		
Loss for the purpose of basic loss per share	<u>(202,172)</u>	<u>(199,236)</u>
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic loss per share (in thousands)	<u>4,000,000</u>	<u>4,000,000</u>

The computation of diluted loss per share for the six months ended 30 June 2015 and the corresponding period in 2014 do not assume the equity-settled share-based payments and the conversion of convertible notes because there was a loss for current period and the conversion of convertible notes would result in decrease in loss per share.

With effective from 12 January 2015, every 1 share in the capital of the Company (including every issued and unissued ordinary share of US\$0.00001) was subdivided into 8 subdivided shares of US\$0.0000125 each. The calculation of the basic and diluted loss per share for the six months ended 30 June 2015 and 2014 have been adjusted as a result of the share subdivision effective on 12 January 2015.

9. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

During the current period, the Group spent approximately RMB7,501,000 (six months ended 30 June 2014: RMB3,313,000) for the acquisition of property, plant and equipment to update its manufacturing capabilities. In addition, the Group also incurred construction cost for building of approximately RMB49,695,000 (six months ended 30 June 2014: RMB12,979,000), and had addition in pacemaker project with a cost of approximately RMB30,514,000 (six months ended 30 June 2014: nil) during the six months ended 30 June 2015. Pursuant to the Loan Agreement entered into on 8 June 2015, the Group had pledged the land use rights (details are set out in note 10) and the headquarters building which is in the process of construction with an carrying value approximately of RMB35,164,000 and RMB71,007,000 respectively as at 30 June 2015 for the purpose of securing a bank borrowing with a carrying value of RMB200,000,000. The building mortgage application will start to conduct upon the completion of the construction.

During the current period, the Group incurred approximately RMB11,687,000 (six months ended 30 June 2014: RMB8,303,000) of development expenditure for the development of congenital heart diseases business and peripheral vascular diseases business, which together with expenditure of approximately RMB348,000 (six months ended 30 June 2014: RMB12,000) for purchase of intangible assets.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2015

10. PREPAID LEASE PAYMENTS

	30 June 2015 RMB'000 (Unaudited)	31 December 2014 RMB'000 (Audited)
Analysed for reporting purposes as:		
Current asset	1,271	1,271
Non-current asset	33,893	34,529
	35,164	35,800

The Group's prepaid lease payments represent payment for land use rights in the PRC which are held under medium-term leases.

The Group had pledged its land use right held for own use with a net book value of approximately RMB35,164,000 for the purpose of securing the bank borrowing. The mortgage procedure of the land use right has been completed in August 2015.

11. INTERESTS IN ASSOCIATES

	30 June 2015 RMB'000 (Unaudited)	31 December 2014 RMB'000 (Audited)
Cost of investments, unlisted	1,008	1,126
Share of post-acquisition reserves	137	(17)
	1,145	1,109

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2015

11. INTERESTS IN ASSOCIATES - continued

As at 30 June 2015 and 31 December 2014, the Group had interest in the following associates which were established by the Group and other shareholder:

Name of entity	Proportion of Ownership interest and voting rights held by the Group		Place of establishment/ operation	Share capital	Principal activity
	2015	2014			
Broncus Holding Corporation ("Broncus")	—	—	Cayman Islands/ United States of America	USD1,000	Investment holding and developing, and commercialising solutions for diagnosing and treating lung diseases
Shenzhen EnKe Medical Corporation Co., Ltd. ("Enke Medical") 深圳市恩科醫療科技有限公司	49%	49%	The PRC	RMB1,000,000	Trading of medical devices

12. DEPOSITS FOR ACQUISITION OF LONG TERM INVESTMENT/INTANGIBLE ASSETS

- (i) The Group entered into a strategic partnership agreement with an independent third party, which manages and operates an investment fund, on 12 April 2012, to enter into a long-term strategic alliance and equal partnership to collaborate across incubation projects over the period up to 12 April 2014. Deposit for acquisition of long term investment represents the consideration of USD3,000,000 paid by the Group for the acquisition of options, on a priority basis, to invest or co-invest in any and/or all incubation projects and to acquire distribution rights, manufacturing rights and intellectual property licenses with respect to the incubation projects. The Group has the right to join and be a member of the investment committee of the investment fund. Further, the Group has the rights to request for all or a portion of the deposit to be converted to one or more incubation projects investments. The deposit is non-refundable. On 10 April 2014, the Group entered into a supplementary agreement to the strategic partnership agreement to extend the project period from 12 April 2014 to 12 September 2014. During the year ended 31 December 2014, the management determined the recoverable amount of the deposit for acquisition of the long term investment was less than the carrying amount and, accordingly, the deposit for acquisition of the long term investment was fully impaired. As at 30 June 2015, none of the deposit monies have been used by the investment fund on any incubation projects yet.
- (ii) As at 30 June 2015, the deposits also include a deposit for acquisition of intangible asset of RMB12,600,000. On 28 March 2013, the Group advanced RMB12,600,000 to the same independent third party in order to obtain the priority for acquiring the exclusive distribution right to sell the designated products in the event of the successful of application of licenses of the designated products within a predetermined period as defined in the agreement over the period up to 27 March 2016. The deposit is refundable subject to the occurrence of specific events as defined in the agreement signed between the Company and the independent third party.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2015

13. TRADE RECEIVABLES

The Group normally allows a credit period of 30 to 90 days to its trade customers. The following is an aged analysis of trade and bill receivables net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period, which approximated the respective revenue recognition dates.

	30 June 2015 RMB'000 (Unaudited)	31 December 2014 RMB'000 (Audited)
1 - 90 days	42,971	51,207
91 - 180 days	5,021	5,308
181 - 365 days	3,301	4,816
Over 365 days	4,902	3,542
	<u>56,195</u>	<u>64,873</u>

14. TRADE PAYABLES

The credit period granted by suppliers to the Group ranged from 30 to 120 days. The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period:

	30 June 2015 RMB'000 (Unaudited)	31 December 2014 RMB'000 (Audited)
0 - 30 days	3,175	2,003
31 - 60 days	1,385	833
61 - 120 days	424	153
Over 120 days	357	389
	<u>5,341</u>	<u>3,378</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2015

15. GOVERNMENT GRANTS

Government grants include subsidies in relation to the acquisition of plant and equipment and the research and development of medical devices. Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received. During the six months ended 30 June 2015, approximately RMB1,036,000 and RMB8,380,000 subsidies relating to research and development of medical devices and the acquisition of plant and equipment, respectively, have been received (30 June 2014: RMB231,000 and RMB7,500,000). The Group recognised income of approximately RMB6,448,000 (30 June 2014: RMB1,180,000) during the six months ended 30 June 2015. The current portion of government grants, which include subsidies in relation to research and development of medical devices that have not yet been recognised in profit or loss, are included in other payables. The non-current portion of government grants, which include subsidies in relation to the acquisition of plant and equipment that have not yet been recognised in profit or loss, are included in non-current liability.

16. CONVERTIBLE NOTES

On 30 January 2013, the Company issued Hong Kong dollars (“HK\$”)152,000,000 unsecured 1% convertible notes due 2018 (“Convertible Notes”). The Convertible Notes bear interest at 1% per annum and mature on 29 January 2018 (“Maturity Date”). The holder of the Convertible Notes has the right to convert the principal amount of Convertible Notes into shares of the Company at an initial conversion price of HK\$3.8 per share (adjusted to HKD0.475 per share upon the share subdivision effective from 12 January 2015 as described in “Share Subdivision”). The Company may not redeem the Convertible Notes at its option prior to the Maturity Date. The noteholder will have the right at noteholder’s option, to require the Company to redeem all or part of the Convertible Notes prior to the Maturity Date at a price equal to their principal amount and interest accrued to the date fixed for redemption subject to the occurrence of specific events as defined in the terms and conditions of the relevant investment agreement.

The Convertible Notes contain two components, liability component and conversion option derivative. The effective interest rate of the liability component is 16.64% per annum. The conversion option derivative is measured at fair value with changes in fair value recognised in profit or loss. On initial recognition, the total fair value of the Convertible Notes is approximately RMB208,351,000 which is higher than the principal amount of the Convertible Notes of HK\$152,000,000 (equivalent to approximately RMB123,348,000) and resulted in a loss on fair value of approximately RMB85,003,000 on initial recognition of the Convertible Notes. The transaction cost for the issuance of Convertible Notes is approximately RMB4,358,000.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2015

16. CONVERTIBLE NOTES - continued

The movement of the liability component and conversion option derivative of the Convertible Notes for the period is set out as below:

	Liability component RMB'000	Conversion option derivative RMB'000
At 1 January 2014	67,058	121,201
Exchange realignment	664	1,163
Interest charge	5,544	—
Fair value loss	—	239,706
At 30 June 2014	<u>73,266</u>	<u>362,070</u>
Exchange realignment	(484)	(2,212)
Interest charge	5,701	—
Fair value loss	—	(123,263)
At 31 December 2014	<u>78,483</u>	<u>236,595</u>
Exchange realignment	(49)	(90)
Interest charge	6,467	—
Fair value loss	—	237,475
At 30 June 2015	<u>84,901</u>	<u>473,980</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2015

16. CONVERTIBLE NOTES - continued

The fair value of the conversion option derivative component of the Convertible Notes is estimated using a Binomial Option Pricing Model with the assumption of the movement of stock price of the Company and interest rates. The assumption adopted for the valuation of the conversion option derivative component of the Convertible Notes using Binomial Option Pricing Model as of 30 June 2014, 31 December 2014 and 30 June 2015 were as follows:

	30 June 2015	30 June 2014	31 December 2014
Risk-free interest rate (i)	0.561%	0.885%	1.016%
Expected volatility (ii)	45.63%	51.01%	51.40%

Notes:

- (i) Risk-free interest rate was used by reference to Hong Kong Exchange Fund Note at the valuation date.
- (ii) Expected volatility was calculated by reference to annualised standard deviation of the continuously compounded rates of return on the daily average adjusted share price of the comparable companies.

The fair values were determined by the Directors with reference to valuation report carried out by an independent qualified professional valuer, Asset Appraisal Limited, an independent firm of professional valuer not connected with the Group.

17. SHARE CAPITAL

	Number of shares	Amount USD	
Ordinary shares			
Authorised:			
At 1 January 2014, 30 June 2014, 31 December 2014 and 30 June 2015 at USD0.00000125 each	<u>40,000,000,000</u>	<u>50,000</u>	Shown in the condensed consolidated financial statements as RMB'000
	Number of shares	Amount USD	RMB'000
Issued and fully paid:			
At 1 January 2014, 30 June 2014, 31 December 2014 and 30 June 2015 at USD0.00000125 each	<u>4,000,000,000</u>	<u>5,000</u>	<u>32</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2015

17. SHARE CAPITAL - continued

With effective from 12 January 2015, every 1 share in the capital of the Company (including every issued and unissued ordinary share of US\$0.00001) was subdivided into 8 subdivided shares of US\$0.00000125 each.

18. SHARE-BASED PAYMENTS

The Share Option Scheme was adopted pursuant to a resolution passed on 5 May 2015 for the primary purpose of providing incentives to directors and eligible employees, and will expire on 4 May 2025.

The table below discloses movement of the Company's share options held by the Group's Directors and employees:

	Number of share options
Outstanding as at 1 January 2015	—
Granted during the period	160,000,000
Forfeited during the period	(1,124,000)
Exercised during the period	—
Expired during the period	—
Outstanding as at 30 June 2015	<u>158,876,000</u>

The closing price of the Company's shares on the Granted Day, i.e. 5 May 2015 was HK\$1.410.

The average closing price of the Company's shares as stated in the daily quotation sheets issued by the Stock Exchange for the five (5) business days immediately preceding the date of grant on which the options were exercised was HK\$1.464. In the current interim period, share options were granted on 5 May 2015. The fair values of the options determined at the date of grant using the Black-Scholes option pricing model was HK\$132,338,000.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2015

18. SHARE-BASED PAYMENTS - continued

The following option properties and assumptions were used to calculate the fair values of share options:

	5 May 2015
Grant date share price	HK\$1.410
Exercise price	HK\$1.464
Expected life	7.75 years - 8.75 years
Expected volatility (Note i)	54.18% - 55.33%
Dividend yield	0%
Risk-free interest rate (Note ii)	1.51% - 1.56%

Notes:

- (i) Volatility is average of the annualized standard deviation of daily return of stock price of 1066.hk, 233.hk and 801.hk with the tenor equal to the option life with reference to Bloomberg.
- (ii) Risk-free interest rate represents the yields of HKD Hong Kong Sovereign Curve with respective tenors as the valuation date. Linear Interpolation is adopted when necessary.

The Black-Scholes option pricing model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options were determined by the Directors with reference to valuation report carried out by an independent qualified professional valuer, Asset Appraisal Limited, an independent firm of professional valuer not connected with the Group.

As at 30 June 2015, the Group revises its estimates of the number of options that are expected to vest ultimately. The impact of the revision of the estimates, is recognised in profit and loss, with a corresponding adjustment to the share option reserve.

The Group recognised the total expense of approximately RMB4,606,000 in profit and loss and approximately RMB6,037,000 in share option reserve for the interim period in relation to share options granted by the Company.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2015

19. OPERATING LEASES

The Group as lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of premises which fall due as follows:

	30 June 2015 RMB'000 (Unaudited)	31 December 2014 RMB'000 (Audited)
Within one year	7,541	3,293
In the second to fifth years inclusive	9,706	1,673
	<u>17,247</u>	<u>4,966</u>

Operating lease payments represent rentals payable by the Group for certain properties. Leases are negotiated and rentals are fixed for terms ranging from one to five years.

The Group as lessor

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	30 June 2015 RMB'000 (Unaudited)	31 December 2014 RMB'000 (Audited)
Within one year	1,241	1,270
In the second to fifth years inclusive	1,838	2,451
	<u>3,079</u>	<u>3,721</u>

20. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis.

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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20. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS - continued

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial assets/ financial liability	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
	30 June 2015 RMB'000	31 December 2014 RMB'000				
Financial assets Structured deposits (classified as financial asset in the statement of financial position)	10,000	9,440	Level 2	Discounted cash flow. Market price of underlying financial instruments, including listed shares and debentures.	N/A	N/A
Financial liability Conversion option derivative liability (classified as financial liability in the statement of financial position)	473,980	236,595	Level 3	The Binomial Option Pricing Model. The key inputs are risk free rate for the yields to maturity of respective Hong Kong Exchange Fund Note and volatility of the share price from the comparable companies.	Volatility (Note)	The higher the volatility, the higher the fair value.

Note: If the volatility to the valuation model were 10% higher/lower while all the other variables were held constant, the carrying amount of the conversion option derivative liability would increase/decrease by approximately RMB122,000 and zero respectively.

The Directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the condensed consolidated financial statements approximate their fair values.

Details of reconciliation from the beginning balance to the ending balance of level 3 fair value measurement of financial liability regarding conversion option of Convertible Notes are set out in note 16. There were no transfers between the different levels of the fair value hierarchy for the period.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2015

21. CAPITAL COMMITMENTS

	30 June 2015 RMB'000 (Unaudited)	31 December 2014 RMB'000 (Audited)
Capital expenditure in respect of acquisition of property, plant and equipment - contracted for but not provided in the condensed consolidated financial statements	244,953	255,838

22. RELATED PARTY DISCLOSURES

- (a) The amount is unsecured, interest-free and trade in nature with a credit period of 60-90 days. The amount is aged within 90 days at the end of the reporting period.

	30 June 2015 RMB'000 (Unaudited)	31 December 2014 RMB'000 (Audited)
Amount due from a shareholder: Medtronic	876	7,069
Amount due from an associate: Enke Medical	1,567	2,009
Amount due to a shareholder: Medtronic	30,461	2,250

The Group entered into the following transactions with related parties during the year:

Nature of transactions	Six months ended 30 June	
	2015 RMB'000 (Unaudited)	2014 RMB'000 (Unaudited)
Service fee paid and payable to Medtronic	28,125	20,689
Royalty fee paid and payable to Medtronic	2,336	1,811
Revenue from sales of goods to Medtronic Vascular Galway (subsidiary of Medtronic)	2,138	—
Revenue from sales of goods to Medtronic (Shanghai) Management Co., Ltd (subsidiary of Medtronic)	402	—
Revenue from sales of goods to Medtronic	14	—
Revenue from sales of goods to Enke Medical	962	785
Revenue from sales of goods to Broncus Medical	—	28

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2015

22. RELATED PARTY DISCLOSURES - continued

(b) Non-trade balances

Details of the Group's non-trade balances with related parties are set out on the consolidated statement of financial position and in note 16.

(c) Compensation of key management personnel

The remuneration of key management personnel during the period was as follows:

	Six months ended 30 June	
	2015	2014
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Short-term employee benefits	3,426	2,100
Post employee benefits	83	78
	<u>3,509</u>	<u>2,178</u>

The remuneration of key management personnel is determined by reference to the performance of individuals and market trends.

23. CONTINGENT LIABILITIES

The Group is currently involved in a litigation in India. In 2008, a company (the "Plaintiff") filed a suit with The High Court of New Delhi (the "Court") at New Delhi, India, against (i) Lifetech Scientific (Shenzhen) Co., Ltd. ("Lifetech Shenzhen"), (ii) Lifetech Shenzhen's importer in India; and (iii) such importer's local Indian distributor (individually and collectively referred to as "Defendants"). The Plaintiff pleaded to the Court to issue a permanent injunction restraining the Defendants from importing and selling HeartR occluders in India which were accused of infringing the Plaintiff's patent. The Plaintiff also pleaded to order the national importer in India and its local Indian distributor to surrender all the rendition of accounts of profits or a decree of damages of Indian Rupee ("INR") 2,100,000 (equivalent to approximately RMB218,000). As at 30 June 2015 and up to the date of the issue of these condensed consolidated financial statements, the cross-examinations of all the witnesses of the Plaintiff and of the Group were completed; the final arguments are still awaited in the suit.

After seeking legal advice, the Directors of the Company are of the opinion that it is not probable that the Court will grant a permanent injunction to the Plaintiff and it is also not probable for the Court to award damages to the Plaintiff or direct delivery of infringing devices. Accordingly, the Directors consider that no provision is necessary for any potential liability in the condensed consolidated financial statements.